

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 04 MANILA 005344

SIPDIS

STATE FOR EAP/EP, EB/TPP/ABT, EB/TPP/BTA/ANA, OES/OMC  
STATE PASS USTR FOR BWEISEL, DKATZ, RVARGO  
STATE PASS USAID  
USDA FOR MANIS, AUTRY, SHEIKH  
TREASURY FOR OASIA FOR AJEWELL  
USDOC FOR 4430/ITA/MAC/DBISBEE

E.O. 12958: N/A

TAGS: [EAGR](#) [EAID](#) [PREL](#) [PGOV](#) [ECON](#) [RP](#) [WTRO](#)  
SUBJECT: MINDANAO TUNA INDUSTRY AT RISK

-----  
SUMMARY  
-----

1. The tuna industry, which generates \$400 million in annual revenues in Mindanao, faces a potential reduction in access to the EU market and restrictions in traditional fishing grounds. Indonesia is reluctant to extend a crucial bilateral fishing agreement beyond December 3. Tuna producers are also concerned the EU will decertify fishing vessels and canneries because of heightened health criteria. Tuna exporters fear efforts by Ecuador, Thailand and other producers to gain preferential access to the US market. To ensure continued growth, the industry must adapt new mechanisms to improve international management of fish resources in the Pacific Basin. Limited access to Indonesian waters or restricted access to EU and US markets could severely damage the Philippine tuna industry and undermine an economic sector critical to the development of southern and western Mindanao. The U.S. has an interest in supporting the Philippine tuna industry to promote economic development and political stability in Mindanao. If GRP negotiations with Indonesia become deadlocked, the USG could consider encouraging Indonesia to renew its bilateral fishing agreement, emphasizing the importance of Mindanao to our common anti-terrorism efforts.

-----  
TUNA: PRODUCTION AND TRADE  
-----

2. The tuna business, with total annual revenues of \$400 million, is vital to southern Mindanao, home to eight canneries - two in Zamboanga City and six in General Santos City. The USAID-funded Growth with Equity in Mindanao (GEM) project estimates that the tuna industry provides 100,000 jobs and ancillary employment for an additional 50,000. According to the U.N. Food and Agricultural Organization, Philippine tuna production has grown from 300,000 metric tons in 1996 to exceed 500,000 metric tons annually in 2003 and 2004. In anticipation of further growth, canning firms General Tuna and Celebes Canning recently announced new investments of P347 million (\$6 million) to expand production facilities and create 547 new jobs. Celebes will nearly double its annual production capacity from 8,386 metric tons to 15,600 metric tons.

3. Industry groups estimate the Philippines' annual commercial tuna production at 400,000 MT (excluding non-commercial coastal species). Roughly half is canned for export, with 44% of canned exports sent to the US and 42% to the EU. The industry exports approximately 50,000 MT of fresh or frozen fish. The value of processed tuna exports rose from \$123 million in 2000 to \$183 million in 2004, though tuna canners report that exports have long been underreported. The industry is trying to correct production figures to ensure equitable access to international fish stocks, since an international commission will allocate annual fishing quotas based on past statistics. Philippine exporters joined the Thai tuna industry in lobbying to retain equal access to the US canned tuna market during 2002 when the US limited preferential duties to pouched tuna under the Andean Trade Preference and Drug Eradication Act (ATPDEA).

-----  
ACCESS TO INDONESIAN WATERS UNDER THREAT  
-----

4. The bilateral RP-Indonesia fishing agreement, which governs access to Indonesian waters, will expire on December 13. In renewal negotiations, Indonesia has proposed to sharply reduce Philippine access to Indonesian fishing grounds where 60-70% of Philippine tuna originates. According to the Bureau of Fisheries and Aquatic Resources (BFAR), Indonesia has proposed reflagging most Philippine fishing vessels that use Indonesian waters and requiring each vessel to employ 60% Indonesian crews. Reflagged vessels would need to process their catch in Indonesia or

export it, through Indonesian firms, to Philippine processors. Dr. Stanley Swerdloff, GEM's Senior Fisheries Advisor, noted that Indonesia lacks the capacity to store and process this volume of tuna, so the proposal does not appear to serve Indonesian interests either. If the agreement expires, Philippine vessels would be subject to surveillance by a new vessel monitoring system and subject to seizures by Indonesian authorities. GEM estimates that General Santos City could suffer a 40-100% decline in the tuna industry, and a 25-60% overall economic decline if the two countries fail to renew the agreement.

15. The GRP counteroffer would avoid reflagging RP vessels but promises to land 60% of the catch in Indonesia, provided that sufficient cold storage and processing capacity is available. Philippine companies have established two canneries in Indonesia in recent years, but the Tuna Canners Association of the Philippines (TCAP) reports that Indonesia's production costs are not competitive. GRP negotiators are willing to encourage further investment in return for renewed access to Indonesian waters. The GRP can also cite Article 62 of the United Nations Convention on the Law of the Sea (UNCLOS) requiring signatories to allow access to unused aquatic resources taking into account "the need to minimize economic dislocation in states whose nationals have habitually fished in the zone".

16. According to Swerdloff, the Philippine Department of Foreign Affairs has appeared reluctant to push for renewal of the bilateral agreement possibly due to an outstanding maritime boundary dispute involving a disputed island off Mindanao. He said DFA is unwilling to cite UNCLOS provisions and may prefer to delay resolution of the maritime boundary in hopes of encouraging joint ventures for oil exploration in disputed areas. BFAR bypassed DFA to negotiate the current bilateral agreement and is leading the renewal negotiations, which will resume on November 24-25 in Jakarta.

-----  
EU INSPECTORS MAY RESTRICT MARKET ACCESS  
-----

17. TCAP expects a team of 20 EU Inspectors to visit the Philippines in late 2005 to verify that canneries and fishing boats meet EU sanitary and phytosanitary (SPS) rules. The requirements are intended to prevent bacterial contamination during storage and processing of fish. If compliance falls short, EU inspectors could cut off access to EU markets for some or all canneries. TCAP noted that BFAR has required 34 fish processing companies to apply for recertification due to health issues, but tuna exporters have not been affected. Swerdloff said that EU consultants highlighted some legitimate issues but also made some unreasonable demands, and it is unlikely that EU inspectors will impose the same requirements.

18. Philippine exporters believe these SPS issues are a spurious attempt to restrict trade in retaliation for a successful WTO complaint filed by GRP and other Asian producers against preferential EU market access offered to African Caribbean and Pacific (ACP) countries. ACP market access preferences favor Spanish companies that expanded canning operations in eligible countries. TCAP claims to have compiled documentary evidence, including videos of Spanish canneries, showing that EU and Philippine producers face different inspection standards.

19. TCAP Executive Director Francisco Buencamino reported that EU consultants have also questioned the competence of the Philippine Bureau of Fisheries and Aquatic Resources (BFAR). Swerdloff said that these doubts arose after security issues prevented EU consultants from conducting a pre-inspection visit to Mindanao, so BFAR instead brought them to visit a Manila fishing port with dismal sanitary standards.

110. The EU also wants to reduce by 2006 the maximum lead content in fish to 0.02 parts per million (PPM) from the present 0.05 PPM by 2006. TCAP reports that the new standard is extremely difficult to maintain, inconsistent with the Codex Alimentarius, and of negligible impact on consumer health. TCAP is concerned that these lead content standards may also be a discriminatory non-tariff barrier that could favor EU and ACP producers.

-----  
COMPETITORS SEEK ADVANTAGES IN US MARKET  
-----

111. Philippine tuna exporters are also concerned that major competitors such as Thailand and Ecuador may obtain preferential access to the US canned tuna market through current trade negotiations. After Ecuador obtained lower US tariff rates for pouched tuna, TCAP fears it may push to extend duty-free access to canned tuna under the Andean Free

Trade Agreement. Exporters here expect Thailand to seek preferential market access for tuna under a US-Thailand Free Trade Agreement. Philippine canners also fear that the Central American Free Trade Agreement will expand trade preferences already granted for Caribbean tuna. TCAP believes that Philippine tuna exports to the US could be reduced to zero if significant preferences are offered to other major producers.

-----  
GSP APPLICATION OR US LEGISLATION  
-----

12. TCAP is considering either submitting an application to include canned tuna under the Generalized System of Preferences (GSP) or lobbying for US legislation to counter preferential US market access to competing producers. Ted Po, Vice President of Century Canning Corporation, surmised that a US-RP Free Trade Agreement (FTA) might ensure competitive US market access for Philippine tuna exporters, but he expressed doubt about the near-term feasibility of such an FTA in view of the political sensitivities over Philippine agriculture. TCAP has engaged a US law firm to explore the feasibility of filing a GSP petition in the event that competing producers gain preferential market access. TCAP also suggested that the U.S. congress could intervene to ensure equal market access for Philippine tuna producers as it has proposed to do for pouched tuna through the Fair Trade In Pouch Tuna Act of 2005.

-----  
NEW PACIFIC FISHING REGIME  
-----

13. The tuna industry is adapting to new multilateral mechanisms to regulate fish stocks in the western Pacific Basin. In May 2005, the GRP ratified the Multilateral High Level Convention (MHLHC) on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean. Originally signed in 2000, the MHLHC led to the establishment in 2004 of the Western and Central Pacific Fisheries Commission (WCPFC), to monitor fish stocks, and allocate fishing quotas for international waters. The WCPFC will try to limit the annual catch of yellowfin and bigeye tuna based on evidence of overfishing, while allowing further growth in the skipjack tuna catch.

14. Under the new regime, fishing vessels will be required to install tracking devices, increase their minimum net size to reduce the collection of smaller fish and submit daily and monthly logs of their catch. In July 2005, the GRP adopted a National Tuna Management Plan that incorporates MHLHC requirements for managing fishing stocks in Philippine waters. USAID Manila programs support this initiative and help the GRP improve its resource management capacity and adapt to international standards.

-----  
COMMENT  
-----

15. Philippine exporters appear most concerned over upcoming EU inspections and potential loss of EU market access. Exporters and USAID advisors doubt that health issues would justify decertification of Philippine canneries, but TCAP is worried that EU inspectors may impose unreasonable standards as a non-tariff barrier to support EU and ACP competitors. The expiration of the bilateral agreement with Indonesia, however, may be a more serious threat to the Philippine tuna industry. Since Indonesia receives limited economic benefits from its bilateral fishing agreement with the Philippines, the GRP is concerned that Indonesia may allow the agreement to expire and use new surveillance tools to enhance enforcement. The U.S. has an interest in supporting the Philippine tuna industry to promote economic development and political stability in Mindanao. If negotiations fail to overcome the impasse, the USG could encourage Indonesia to renew its bilateral fishing agreement with the Philippines, emphasizing the importance of Mindanao to our common anti-terrorism efforts.

JONES